



**DEFENSE LOGISTICS AGENCY
DEFENSE CONTRACT MANAGEMENT COMMAND
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221**

AQOC

AUG 27 1997

**MEMORANDUM FOR COMMANDERS, DEFENSE CONTRACT MANAGEMENT
DISTRICTS**

**SUBJECT: DCMC Memorandum No. 97-037, Report on Efforts to Increase Contract
Audit Followup Reporting Threshold (INFORMATION)**

This is an INFORMATION memorandum. Target Audience: DCMC personnel involved in using the Contract Audit Followup (CAFU) Reporting System.

In late 1995, in response to field input suggesting that CAFU reporting is non-value added, we requested the Department of Defense (DoD) Inspector General (IG) to increase the CAFU threshold to \$250,000. In early 1996, we asked for a raise to \$500,000. The original \$50,000 threshold was first established in 1982. It was subsequently raised to \$100,000 in 1988, where it currently remains. Data from studies performed by the Defense Contract Audit Agency (DCAA) showed a \$250,000 reporting threshold would reduce reported costs questioned by 2.2% and reportable audits by 30%. A \$500,000 reporting threshold would reduce reported costs questioned by 4.3% and reportable audits by 49%.

Even though our proposed threshold increase was endorsed by the Under Secretary of Defense for Acquisition and Technology, after a prolonged period of study, the DoD IG advised us they could not agree with raising the threshold. The DoD IG presented the following reasons for their decision: (1) our projected time savings would not materialize because since we were now using an automated followup system, updates would only be required to periodically report on progress; (2) all audit reports had to be tracked until dispositioned; and (3) most of the other U.S. Government Agencies had no threshold and required full reporting. A copy of the DoD IG letter is attached.

Questions can be directed to either Mr. Frank Wojtaszek, AQOC, at (703) 767-3405 or Mr. Glen Gulden, Overhead Center, at (703) 767-3406.


JILL E. PETTIBONE
Executive Director
Contract Management Policy

Attachment





INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

MAY 12 1997

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION
AND TECHNOLOGY

SUBJECT: Contract Audit Followup (CAF) Reporting Threshold
Revision

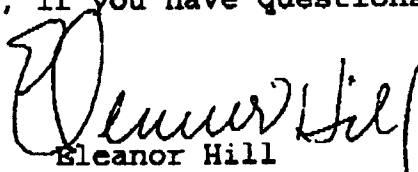
This is in response to your memorandum of March 6, 1996, subject as above, requesting we raise the contract audit followup (CAF) reporting threshold for certain postaward audits.

Office of Management and Budget Circular A-50, "Audit Followup," and the Inspector General Act prescribe the semiannual reporting requirements for audits. All Inspectors General are required to report to Congress and the agency head on the numbers and categories of contract audits for their respective agencies. Neither the Circular nor the law establish a dollar threshold.

When the CAF program began in 1982, DoD Components reported manually, which was an administrative burden for our department because of the numbers of contract audits. We held informal discussions with officials of the Office of Management and Budget to explain this problem. Although no official approval was given, we did establish a threshold for reporting. We are the only department that has taken such action. Most other departments require full reporting regardless of dollar amount.

The Defense Contract Management Command (DCMC) now uses the Defense Contract Audit Agency database; therefore, the semiannual reporting is automated. Since manual reporting has been eliminated, the DCMC contracting activities are required only to update the information in the database as progress is made. Although raising the threshold to \$500,000 would decrease the number of audits reported to us by 18 percent and reduce reported questioned costs by 2 percent, we do not believe the time required to maintain the database would decrease. Management must track all audits until disposition is accomplished whether the audits are reportable or not.

We will continue to consider streamlining suggestions, but we do not believe that raising the threshold for reporting contract audit reports is warranted at this time. Please contact me or Mr. Russell A. Rau, Assistant Inspector General for Policy and Oversight, at (703) 604-8800, if you have questions.


Eleanor Hill
Inspector General